

## Issues in Pension Finance

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The aging of the developed societies presents them with many complex challenges in respect of old-age income and health care provision. In all countries pension systems are in discussion and manifold reform measures are being taken. It is often argued that funding opposed to pay-as-you-go can make a major contribution to alleviate the problems and imbalances of an aging society. The basic characteristics and relative merits of pay-as-you-go and funding are broadly discussed in Chapter 1 of this book.

There is much concern, even anxiety on the adverse impact population aging can have on the economy. The primary issue is whether pay-as-you-go based pension plans opposed to funding depress national savings. Population aging and the way pension schemes are financed also affect labour supply. They are reviewed throughout Chapter 1 and Chapter 3.

The adage that what is true on a micro-level is not necessarily true on a macro-level also holds for the well-known Aaron-condition, which says that the investment fund method is preferable when the rate of growth of total earnings is less than the interest rate. This is dealt with in Chapter 2, where an old-age pension system is embedded in a neo-classical economy and in which it is made clear which role pension finance can play to let the economy move along the golden-rule growth path, in which per capita consumption is maximized for all time.

From a treatise reflecting on the basics of pension finance via a formal treatment of optimal saving and pension financing the author brings us back to the threshold of the 21st century, which will show an unprecedented population aging in developed countries. In Chapter 3 it is shown that under realistic assumptions on labour productivity growth western societies can grow older without concern about allegedly adverse effects. There is still room for a further increase in welfare in the first half of the next century. Budgetary imbalances may arise nonetheless; adequate policy measures should be taken therefore.

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